

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**June 8, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LETCHER COUNTY**  
**SHERIFF'S SETTLEMENT - 2004 TAXES**

**June 8, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Letcher County Sheriff as of June 8, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$4,755,765 for the districts for 2004 taxes, retaining commissions of \$184,698 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,568,107 to the districts for 2004 Taxes.

**Report Comments:**

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jim Ward, Letcher County Judge/Executive  
Honorable Danny R. Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the Letcher County Sheriff's Settlement - 2004 Taxes as of June 8, 2005. This tax settlement is the responsibility of the Letcher County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Letcher County Sheriff's taxes charged, credited, and paid as of June 8, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steve Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jim Ward, Letcher County Judge/Executive  
Honorable Danny R. Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

December 20, 2007



LETCHER COUNTY  
DANNY R. WEBB, SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

June 8, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 436,146	\$ 445,559	\$ 1,611,429	\$ 411,044
Tangible Personal Property	135,779	123,638	370,531	274,257
Intangible Personal Property				42,788
Fire Protection	4,228			
Omitted Taxes	14,768	14,936	51,291	14,626
Franchise Corporation	93,523	86,559	268,167	
Oil and Gas Property Taxes	112,414	114,840	408,410	105,965
Limestone, Sand, and Mineral Reserves	1,842	1,882	6,692	1,715
Penalties	6,351	6,391	22,850	6,839
Adjusted to Sheriff's Receipt	11	24		11
Gross Chargeable to Sheriff	805,062	793,829	2,739,370	857,245
<u>Credits</u>				
Exonerations	16,337	16,662	55,285	15,573
Discounts	9,794	9,686	33,587	12,171
Delinquents:				
Real Estate	39,397	40,247	145,505	37,130
Tangible Personal Property	1,433	1,124	2,784	2,413
Intangible Personal Property				613
Total Credits	66,961	67,719	237,161	67,900
Taxes Collected	738,101	726,110	2,502,209	789,345
Less: Commissions *	31,657	30,859	88,347	33,835
Taxes Due	706,444	695,251	2,413,862	755,510
Taxes Paid	705,987	694,770	2,412,131	755,219
Refunds (Current and Prior Year)	457	481	1,731	442
Penalty				151
Due Districts				
as of Completion of Fieldwork	\$ 0	\$ 0	\$ 0	\$ 0

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,243,556
4% on	\$	1,328,081
3% on	\$	1,174,128

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT

June 8, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY  
DANNY R. WEBB, SHERIFF  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 8, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 10, 2004 through June 8, 2005.

B. Mineral Taxes

Mineral tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 14, 2004 (Oil) and December 14, 2004 (Limestone, Sand, and Gravel) through June 8, 2005. A settlement for Unmined Coal assessments has been completed and is reported in a separate report for 2004 Unmined Coal.

Note 4. Interest Income

The Letcher County Sheriff earned \$4,490 as interest income on 2004 taxes. As of June 8, 2005, the Sheriff owed \$2,291 in interest to the school district and \$2,199 in interest to his fee account.

Note 5. Sheriff's Add-On Fees

The Letcher County Sheriff collected \$33,955 of add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of June 8, 2005, the Sheriff owed \$381 in add-on fees to his fee account.

Note 6. Advertising Costs

The Letcher County Sheriff collected \$1,250 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute.

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## COMMENTS AND RECOMMENDATIONS



LETCHER COUNTY  
DANNY R. WEBB, SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of June 8, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

The Sheriff did not distribute interest earned on tax collections monthly. KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account.

*Sheriff's Response: Effective for 2007, interest payments are being made monthly.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks an adequate segregation of duties. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may not be possible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. The Sheriff should consider implementing the following controls to help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Surprise cash counts by the Sheriff
- Agree daily tax collection totals to deposit slip
- Employees required to take mandatory vacations
- The Sheriff deliver tax distribution checks and monthly tax reports to taxing districts
- The Sheriff receive a signed receipt documenting delivery

*Sheriff's Response: I'll try to do better on this matter. Procedures are being put into effect to alleviate this matter.*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jim Ward, Letcher County Judge/Executive  
Honorable Danny R. Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Letcher County Sheriff's Settlement - 2004 Taxes as of June 8, 2005, and have issued our report thereon dated December 20, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's Settlement - 2004 Taxes as of June 8, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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Crit Luallen  
Auditor of Public Accounts

December 20, 2007

